

South Africa as the actor and the intermediary of Africa's agricultural transformation

L'Afrique du Sud comme acteur et intermédiaire de la transformation de l'agriculture africaine

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First unfinished and unedited draft

Abstract :

South Africa invests in the agricultural sector of 28 African countries, through the export of its farmers, its food processing industries, and its technical and managerial expertise. Its role in this conquest is one of a directly implicated actor as well as of an intermediary. In the first case, South Africa's farmers seeking new opportunities associate themselves with the during the apartheid era established agrarian capital structures in order to expand their respective markets or to look for alternatives to the historic and political context and land question of the country. In the second case, South Africa's agrarian capital associates itself with national and international financial capital, making the country a stepping stone for the diversification of portfolio's of the entire world and any sector. In both cases, the South African government facilitates the process, through the implementation of BITs and the negotiation of preferential trade agreements.

Based on empirical work in South Africa and in the host countries of South African investments, this paper presents the geopolitical strategy of the country with regards Africa's farming sector. On one hand, it presents the different investment models developed by the South Africans. On the other hand, it details the alliances between actors – South Africans and others, originating from the farming sector and beyond – and the instruments developed aiming at engaging this “new South African great trek”. The paper emphasizes that South Africa exports a paradigm based on large-scale commercial and corporate agriculture, following the example of its own agrarian society. Even if South Africa's Minister of Agriculture, Joemat-Pettersson, affirms not to be supporting the export of apartheid, the country certainly contributes to the development of a highly capitalistic and dual farm sector, which she needs for her expansion.

Résumé :

L'Afrique du Sud investit dans l'agriculture de 28 pays africains, par l'exportation de ses agriculteurs, de son industrie agroalimentaire, et de son expertise technique et managériale. L'Afrique du Sud y joue un rôle d'acteur directement impliqué tout comme d'agent intermédiaire. Dans le premier cas, les agriculteurs sud-africains à la recherche de nouvelles

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opportunités s'associent avec le capital agraire établie pendant l'apartheid pour soit étendre leurs marchés réciproques, soit trouver des alternatives à la situation historico-politique et foncière du pays. Dans le deuxième cas, le capital agraire sud-africain s'associe avec le capital financier national et international faisant du pays un tremplin pour la diversification de portefeuilles d'investisseurs du monde entier et de tout secteur. Dans les deux cas, le gouvernement sud-africain facilite le processus, à travers la mise en place de traités d'investissement bilatéraux et la négociation de régimes commerciaux préférentiels.

Basé sur des recherches empiriques en Afrique du Sud et dans les pays hôtes des investissements sud-africains, ce papier présentera la stratégie géopolitique du pays en ce qui concerne l'agriculture africaine. D'une part, il présentera les différents modèles d'investissement que les sud-africains développent. D'autre part, il détaillera les alliances entre acteurs – sud-africains et autres, issues du secteur agricole ou non - et les instruments mis en place afin d'engager ce « nouveau grand trek sud-africain ». Le papier soutient ainsi que l'Afrique du Sud exporte un paradigme basé sur l'agriculture à grande échelle voire de firme, à l'instar de sa propre société agraire. Même si la ministre de l'agriculture sud-africaine Joemat-Pettersson affirme ne pas vouloir supporter l'exportation de l'apartheid, le pays contribue certainement au développement d'un secteur capitaliste et dual, dont elle a besoin pour son expansion.

Structural transformation and new actors and alliances in South Africa's agrarian sector

While structural transformations in South Africa's agricultural sector do not occur where expected and are not made possible from within (Anseeuw, 2013), changes do occur lately related to the engagement of actors linked to the financial markets. The latter represent the emergence, into this frozen landscape, of a new form of capital, i.e. the "financial capital"⁴, coming from beyond the orthodox and historical boundaries of South Africa's agricultural sector. This "financial capital" is embodied by a plurality of actors, raising funds on financial markets and allocating and managing it into a portfolio of assets. Currently, commercial banks, pension funds, endowment funds, as well as development financial institutions or insurance companies are investing into South African agriculture and agro-industries. This attraction seems to be driven firstly by the "multiple food-energy-climate-finance crisis" (Margulis 2013), triggered in 2008-09 globally, which led to a renewed interest in agriculture from financial markets. Confronted with uncertainties affecting 'traditional' financial assets (e.g. bonds, equities), these financial investors diversify their portfolios, integrating more and more 'emergent' assets. Driven by the macro-economic projections around global population and rising food prices (Daniels, 2012), and encouraged by the American and the South American farm model innovations⁵, financial investors are more and more looking for an exposure into agriculture and agribusiness. In addition, agriculture is often perceived as a strong hedge against inflation as agricultural products are integrated in the commodities basket of inflation. As such, inside the financial industries, agriculture and agribusiness are more and more considered as an asset class (Ducastel and Anseeuw, 2013; Chen et al 2013). This is particularly the case in South Africa, where the increased liberalisation and deregulation of its economy and agricultural sector (Vink and Kirsten, 2000) and the presence of the above presented well-structured instruments, in particular the futures market for agricultural commodities (SAFEX) as well as a range of risk management instruments to investors, present a convenient base for financial innovations. The countries' land resources and its role as a regional power also stimulate the interest of investors in this market, not only as a laboratory for new agricultural and investment practices (Ducastel and Anseeuw, 2013) but also as a stepping stone towards other regions on the continent (Hall, 2011).

These financial actors often perceive agriculture as two asset classes. On one hand, farmland is a property such as real estate, with investors expecting a return from its appreciation over time. On the other hand, farming and agribusiness operations produce agricultural commodities, and thus subsequently wealth, with investors endeavoring to capture the latter along the value chain. Both investments are driven by the very same factors but produce different structures of investments and production. To "unlock" these and to penetrate the agricultural sector, financial investors implement different strategies. Indeed, the source of the capital, mainly related to their liability structures (Aglietta & Rigot 2009), weighs significantly on the investment policy, and thus on their choice and expectations regarding agriculture. Some of the investors acquire shares of agricultural or agribusiness listed companies on the Johannesburg Stock Exchange. For instance, South Africa's Public Investment Corporation (PIC), which manages the "Government Employees Pension Fund", holds significant positions in the country's bigger agro-food listed companies (Tiger Food,

⁴ On "financial capital" and the "financialisation" process of industries and firms see, besides others, Epstein, 2005, Aglietta and Rebérioux, 2005, Fligstein and Shin, 2007; for a focus on food-industry, see Burch and Lawrence, 2012

⁵ See for instance the Argentina case (Guibert and Sili, 2009)

Woolworths, etc.) (Greenberg, 2009). Silverlands fund, a London-based private equity fund owns 30,2% of Crookes Brothers – a major corporate venture engaged in primary agricultural production in South and Southern Africa (Crookes Brothers, 2013). Other investors prefer to purchase commit into a financial vehicle, either listed on the stock exchange or privately owned, specialized in the sector (private equity fund, property fund, holding company, etc.). For example, Zeder, a public holding company on the JSE has been launched in 2006 by leading asset management company PSG, , is currently managing four agribusiness portfolios ranging from primary production in Zambia to the seed industry (Zeder, 2013). In the case of a private equity fund, the financial vehicle pursues a private equity over-taking strategy by removing the shares out of the stock exchange (Burch and Lawrence, 2012, p....). But private equity funds can also target privately owned companies and play a more passive role in the daily management; for instance, the Agri-Vie Food and Agribusiness Fund acquired a minority stake into several private agribusiness companies in South Africa (Thomas, 2012). Finally, new players arise in the sector through partnerships or support by financial institutions. This is illustrated by Farmsecure, an agricultural service provider which started in 2004 and is active along the value chain. Farmsecure benefits from attractive finance provision through a contractual partnership with Standard Chartered Bank.

Although the financial channels into South Africa's agriculture are diverse, these investors tend to develop production models and management strategies which revolve around the very same mechanisms and principles. Indeed, financial capital deploying in the agricultural sector pushes for specific production patterns.

South Africa's agrarian conquest and the export of its production model(s)

Since 1994 and especially in the last decade, South Africa's agrarian and corporate capital have been looking for opportunities in other African countries and are presently contributing to the export of the South African agricultural model across the continent (Hall 2012, Bernstein 2013). Their spread over the continent has taken place through three different strategies: the export of farmers, expertise and agribusinesses.

For several years, there has been a movement of independent South African farmers establishing elsewhere in Southern Africa. They are today present in 28 African countries, and according to informal sources up to 800 South African farmers tried to settle in Mozambique and 300 in Zambia. These farmers acquired (or tried to) a few hundred, or in some cases a few thousands, hectares in order to develop a production model based on the South African commercial farm model. These farmers have engaged in various production patterns, although mostly focusing on high value-added commodities produced according to labor-intensive farming systems (mainly in the fruit sector - mango, banana, citrus, as well as tobacco, soy and cattle sectors).

Some of these farmers 'lost' (i.e. sold at market value) their farm(s) in the framework of South Africa's land reform programme, others were progressively squeezed out of the South African market (through the continuous increase of the cost of labor and farm inputs as well as the necessity to regularly upgrade the level of mechanization to be able to compete on the international market in a liberalized economic environment). This being said, many of them still have and maintain agricultural activities in South Africa. Settling and developing agricultural activities abroad is thus not always a last resort, it also represents a way of

benefiting from cheap land and labour, expanding their activities and conquering new and less developed markets. Many of these farmers are failing, though. Although technical difficulties and institutional uncertainties are major factors for failure, the difficulty to access financial services and the high level of transaction costs in Africa's less developed agrarian economies, constitute main difficulties these farmers face.

The second modality is related to the export of South Africa's agricultural expertise. In the present context of a changing agricultural sector in Africa, characterized by high competition between investors interested in farmland for large scale farming, there is a clear premium on management skills. As such, South African commercial farmers are becoming the target of an expressed demand for their skills in farm management by investors acquiring land in Africa (Hall 2012). Agri-SA emphasized that they have been invited, either as farmers or as managers, by more than 42 countries in Africa (ref). Directly engaged from South Africa or recycled from the above mentioned failing independent activities.

Although these two first categories represent the export of part of South Africa's agrarian capital, the countries corporate and financial ones are – although since more recently, at least regarding agriculture – accompanying the trend. In search of new markets, these major South African economic actors are expanding towards less developed countries on the continent. South African agribusiness specialized in farm inputs (Pannar, Omnia), processing (Illovo and Tongaat-Hulett), packaging (Westfalia) and integrated service providers (Unitrans) are developing activities all over Southern Africa. Furthermore, several of the now privatized former cooperatives, in particular AFGRI and ..., are now engaging in Southern Africa and beyond, offering their financial and technical services. Also, South Africa's major retailers and supermarkets are presently mushrooming all over, with the Checkers group, Woolworths and Pick&Pay leading the race. Outside South Africa, Woolworths – South Africa's luxury retail store - currently has 46 stores in ten African countries, namely Botswana, Namibia, Lesotho, Swaziland, Ghana, Kenya, Tanzania, Uganda, Zambia and Mozambique. They are presently also opening stores in Nigeria and Angola⁶.

Although representing different modalities and having appeared in different phases, the export of agrarian, corporate and financial capital are complementing each other. Many of the struggling independent farmers are presently benefitting from the rapid development of agricultural services, technical as well as financial; the agribusinesses and retailers are from their side dependent on the development of larger-scale farming enterprises. It leads to the development of renewed production models in African countries, varying from contract farming to in-grower schemes as well as to more integrated models based on joint-ventures and nucleus-estates (Boche and Anseeuw, 2013). It also led to institutional innovations. One of them has been the initiative developed by Agri SA, facilitating the establishment of South African farmers in African countries. It is well-illustrated by the acquisition of land – an agreement has been reached regarding 80 000ha of a State farm in the Congo Republic for the establishment of Congo-Agriculture, a cooperative of South African farmers (Hall 2012, Boche and Anseeuw 2013). These dynamics and the different complementarities, pushed by the broader rush for Africa's resources (ref), presently structure a broader wave of a more organized expansion of South Africa's capital into Africa's agrarian economy. A coordinated momentum seems to gain speed between these actors and several internal aspects are contributing to it. Firstly, based on their experiences in Congo, Agri-Sa is organizing the

6 Woolworths adopts new business model for African expansion - BY [Jaco Maritz](#) | September 13, 2011 at 13:22 - <http://www.howwemadeitinafrica.com/woolworths-adopts-new-business-model-for-african-expansion/12295/>.

sector, and more particularly South African farmers abroad, in order to expand their activities. It does so by accessing land and negotiating favorable conditions with the host countries' government as well as facilitating access to finance, support services and contracts by, beside other strategies, partnering with agribusinesses. For instance, Agri-SA not only formalized agreements with AFGRI in support of their activities in Africa; they also formed a recognized structure in Mozambique, AgriSaMoz, initiating to organize the sector and their activities. Agri-Sa, with the aim of generalizing such more coordinated activities, has recently established its AgriAllAfrica platform.⁷ Secondly, this export is reinforced through the involvement of South Africa's financial capital, looking to conquer new markets and develop their activities in gradually more deregulated and liberalized economies. This is mainly illustrated by three South African commercial banks (Standard, ABSA and Standard Chartered) that support the expansion of South African farmers through the continent (Hall 2012). Moreover, the export of financial capital also involves financial actors such as asset management companies. While based in South Africa, the large majority of these companies already developed projects in Southern Africa and are trying to expand their activities on the continent. Emvest is one of the most telling examples of this phenomenon. At first, the endowment fund acquired land in several African countries and started to raise financial capital in South Africa and abroad to develop farming activities with the aim to supply their retail facility in South Africa. Then, they started to develop retail opportunities with supermarkets based in the country where they invest. In this context, they are in charge of the implementation of the Pick'n Pay network in Mozambique and are trying to implement contract schemes with fruit and veggies local producers. Thirdly, platforms are getting organized in order to promote and facilitate the conquest of the continent, in name of the necessary economic expansion and economies of scale in an increasingly competitive world. As such, *Agri4Africa*⁸ or *how we made it in Africa*⁹, established in 2010, is opening up "Africa's agribusinesses information highways", aiming at (South African) business people as well as foreign investors with an interest in the continent.

The South African government is also active in promoting the export of South African agricultural actors and model. The national Government has engaged in the negotiation and establishment of several bilateral investment treaties (BITs). Just in the last three years, BITs were signed with Angola, Cameroon, DRC, Gabon, Guinea, Ethiopia, Madagascar, Mauritania, Namibia, Sudan, Tanzania, Zambia and Zimbabwe. Representing 'Agreement[s] on Promotion and Reciprocal Protection of Investment', they often associate memoranda of understanding on 'Cooperation in the Field of Agriculture' (Hall, 2011). Provincial governments are also partaking as illustrated by the drafting of an "International Relations and Africa" strategy by the International Relations Directorate in the department of the Premier of the Western Cape Province. This document "provides the analysis and framework for ensuring a coherent and meaningful approach in the Western Cape's bilateral relations on the continent and build on the solid foundation already in place"¹⁰. Another initiative of the Western Cape Government is the organization of Africa Day, a platform of information gathering government departments, investors, businesses and service providers, promoting and "*driving to create opportunities for growth and jobs by positioning the region to benefit from the untapped trade and economic potential available in rest of sub-Saharan*"¹¹.

⁷ <http://www.agriallafrica.com/sponsors.html>.

⁸ <http://www.agri4africa.com>.

⁹ <http://www.howwemadeitinafrica.com>.

¹⁰ <http://www.info.gov.za/speech/DynamicAction?pageid=461&tid=107678>.

¹¹ <http://www.info.gov.za/speech/DynamicAction?pageid=461&tid=107678>.

This conquest is presently being organized through the development of different production and investment models. Indeed, six investment models orchestrated by South African farmers, agribusinesses, and investment funds, are identified.

Table: The Different Large-Scale Land Acquisition Models

Models	Independent farmer model	Cooperative farmer model	Speculative 1,000-day model	Asset management model	Contracting model	Agribusiness Estate model
Variants and Sub-models						
	-Independent farmers -Delocalized auxiliary farming model -Resource pooling farmers	Cooperative farmer model	1000-day model	Asset management model	-Contract farming -Nucleus Estate -Reverse Tenancy -Ingrower scheme	Agribusiness Model
Set up and organization						
Mechanisms of Governance	Independent	Cooperative (hybrid)	Financial corporate (hybrid)	Financial corporate (hybrid)	Processing corporate (hybrid)	Agribusiness (corporate)
Actors involved	Independent farmer and some informal groupings	Union, cooperative, farmers,	Developer/consultant, financier	Asset management company, financier	Agribusiness already established and local farmers	Agribusiness
Investment (structure)	Independent funds	Investment secured by the cooperative	Private equity partner	Private equity partner	Agribusiness	Agribusiness
Average size of the project	<1,000 ha	10,000 – 80,000 ha	5,000-10,000 ha	5,000-10,000 ha	> 5,000 ha	> 10,000 ha
Establishment/ Access to land	Implementation started at local level	Bilateral treaty; Top down decision process	Acquisition of old state farms facilitated by political network	Takeover of old state farms; Expansion on surrounding area	Already established agribusiness; Support from donors to identify outgrowers and secure land access	Centralized decision; Top down decision process; Takeover of failed projects
Contracting/ agreement	No contracting	National bilateral agreements; Farmers with cooperative	Too early or for prospective purposes	Possible off-set contracts (transport, logistic, value chain service providers)	Production and marketing contracts	National bilateral agreements; Possible off-set contracts (land clearing and transport)
-Degree of vertical integration	Little	Little	Relatively high	Relatively high to High	High	Total vertical integration
Result, outcome, sustainability						
Mechanisms for Sharing rent	N/A	Cooperative – salaries and paid out to cooperative members	Dividend on margin made	Shares of the asset management company	Depending on the contract	N/A as integrated
Outcome	Farming production	Farming production; Transfer of technology; Geopolitical influence	Farming infrastructure; ROI for financier	Farming production; ROI for financier	Farming production and processing	Farming, processing
Level of failure	High	Too early or for prospective purposes	High	Relatively High	Low	Low
Inclusiveness and national/local development						
Ownership/ Voice/ Risk/Reward into core activities	Mentorship within informal grouping	None	None	None	Contract farming, nucleus Estate management contract	Development as “enclave economy”
Local benefits	Land taxes;	Land taxes;	None	Land taxes	Land taxes;	Land taxes;

	Labor intensive model; Some collective action with local emergent farmers	Labor intensive production model		Employment creation volatile	Productive uplifting and market access; Labor intensive production model	Compensation; Highly mechanized production model
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Independent Farmers

This model is based on the establishment of large independent family farms, mainly based on South Africa's traditional commercial farm model. Found in every Southern African country, certain countries seem to be more appealing to this type of investors than others. For example, Mozambique and Zambia, among others, attract significant numbers of South African (up to 800 in Mozambique and 300 in Zambia according to informal sources).

In this case, land is acquired at the local level, often negotiated through local authorities. The areas acquired vary from a few hundred hectares to few thousand hectares (generally less than 2,000 ha). The activities are developed independently, with the production mainly focusing on basic market production, going for the more profitable market opportunities, whether they are domestic or international.¹² They engage in various production patterns, although mostly in fruits (mango, banana, citrus), tobacco, soy and cattle. A common characteristic is the focus on high value-added commodities produced according to labor-intensive farming systems. The investment capital originates mainly from previous savings or still on-going activities (mainly in the home country). This is related to the major difficulties these farmers face in accessing financial services.

Cooperative model

An institutional innovation of agricultural investment models observed is the establishment of cooperative farmers' structures facilitating the development of farming operations in the host country. This cooperative model is often based on multi-level governance structures varying from agricultural unions, established in the country of origin and developing activities abroad, to the development of farmer cooperatives and the establishment of farmers with collective and individual operations in the host countries. Analyzed examples of this model are Congo-Agriculture in the Republic of Congo and AgriSA-Moz in Mozambique, both engaging South African farmers.

These cooperative structures engage in several activities:

- Representing the interests of the farmers engaged abroad;
- Negotiating with national authorities on behalf of the farmers in order to obtain access to land and benefit from certain advantages (level of tax, insurance, support for infrastructure development, import/export benefits, etc.);
- Establish and support the productive base (cooperative set-up, i.e. screen farmers, coordinate farmers, secure funding, empower members technically and institutionally, etc.)

On average, the total area concerned depends on the number of farmers involved but generally covers several tens of thousands of hectares (10,000 ha-80,000 ha).

¹² In the majority of the cases, farmers tend to produce for domestic markets as, compared to foreign ones, demand is often high, prices received are often above international prices (as domestic prices are based on international imports for a large majority of produce) and transaction costs (particularly transport) are lower. In some cases transportation costs are too high a barrier of entry, preventing these farmers from exporting.

The cooperative structure is the basis for many elements related to the development of a sustainable farming enterprise. The financial resources come from a loan made available by an institution in the home country. The latter is made possible as the loan was taken on collectively by the cooperative structure, backed by the mother union and internationally. The initial loan is used exclusively for cooperative elements, such as overall infrastructural development and common farming activities. Secondly, the cooperative structure facilitated contractual arrangements for the off-take of the production, through its government contacts, the identification of off-takers, but also through its negotiation power with the third parties and the creation of a collective brand for commercialization (Favrot 2012). The cooperative also plays a major role in the legal set up of the model, negotiating a bilateral investment treaty. In the case of Congo Agriculture, one of the first steps was the signature of a bilateral investment treaty between South African and Congolese authorities in May 2010 (Hall 2012).

The 1,000-day model

This model has the objective to make available a ready-to-start large farm operating in food or biofuel production on the international market in approximately three years (hence the 1,000 day model). The rationale of this hybrid model is based on two assumptions:

- an anticipation of a future demand for land for food and biofuel production;
- the significant increase of land value at the time the farm is ready to produce (and can be sold to an agribusiness company or an investment fund).

The 1,000-day model can be defined as “land speculation”. On one hand, a developer, i.e. a consultant/entrepreneur often locally integrated but with strong foreign (South African or other but often based in South Africa) business linkages, secures large-scale land rights. On the other hand, a “financer”, generally foreign agribusinesses (generally listed on a stock exchange market), investment funds or private equity investors, provides the financial resource (without directly engaging in the operations). The developer is either in charge of all the activities (in order to reduce risk) or, as is often the case, sub-contracts parts of the activities to service providers. Because of the short timeframe of the project and the high level of risks and uncertainties, contracts are characterized by high level coordination established by the entrepreneur. The Inhassane plantation and project C3, both in the Inhambane province in Mozambique, are examples of this model. The expectation is to raise on average a 30% return on investment after 3 years, equivalent to a 1,000 day establishment plan on farms of, on average, between 5,000 and 10,000 ha. The process to acquire the land or the right to use it is centralized. The developer uses political relations and networks, including within the relevant Ministries such as, for example, the Ministry of Agriculture, to facilitate the land acquisition process. Theoretically, after three years, once the farm is established and when the marginal profit starts decreasing, the farm is sold.¹³

The Asset Management Companies model

This model is characterized by the use of an asset management company as link between financial and business corporates willing to invest in agriculture. Many of them have their asset management company basis in South Africa, with activities being developed on the continent (although generally in geographically close-by or politically and economically more stable countries). It is the case of

¹³ The value of the farm continues to increase with the value of the production; however, one will never obtain again a sharp increase in the asset value.

In comparison to the 1,000-day model, the objective of the asset management company model is not speculative but productive. The financiers are investment funds, willing to invest in agriculture. Several types of investors, presently negotiating their engagement or already actively involved, were identified, including: endowment funds (Emvest; Zeder-Chayton operations in the Mkushi farm block in the Zambia's Central province.); corporates (SAB-Miller), listed funds (Trading Emission PLC), private equity funds (BSX) and development finance institutions (The South African based Phatisa, with funding from the several international cooperation agencies including the French AFD) (Ducastel and Anseeuw, 2013). As financial institutions, they do not directly engage in the agricultural activities. The latter is engaged in by the fund managers and the asset management companies who play a central role in the fund-models set-up.

Two established process are found on the ground. Firstly, investors launch a tender for a manager with a specific mandate; or secondly, which was more often found on the ground in the developing countries, the asset management company takes the lead in defining and establishing the project, while trying to get financiers on board. In any case, asset management companies are responsible for the effective work on the ground, including fund management, project set-up and management (from land access and production to the organization of output markets), etc. The asset management company can either develop the land itself or contract specialized service providers. For example, The Niquel jatropha project in Buzi (Mozambique) invested in all the heavy machinery (bulldozer and excavators) needed to realize the land preparation (an initial investment of over US\$4,000,000 financed by the Dutch Jatropha Consortium), whereas the SunBioFuel project in Manica (Mozambique) subcontracted specialized service providers, Unitrans and Pressa, which were already well established in the road construction and forestry sectors.

Contracting model

The main characteristic of this model is its structuration around contractual arrangements for production. This model can exist in its most simplified format, such as contract farming, or as more complex institutional arrangements, such as i) a *nucleus-estates* (SAB-Miller in Tanzania; ii) a “*reverse tenancy*” *sub-model* (Colin 2013), where individuals, farmers' associations or communities make available land to an agribusiness which exploits it for their own account (Examples of this sub-model are often found in the plantations sector, such as for eucalyptus plantations in the north of Mozambique, managed by Mondi or Sappi); or iii) *ingrower sub-model*, consists of independent farmers or agribusinesses that acquire land for his/its own production and provides (un-used) portions of land to selected local farmers or employees to cultivate.

First of all, the main aim of these agribusinesses entering primary production is to secure supply of production at a lower and more stable price (compared to the prices on the present global markets), often in order to sustain the significant investments in (processing) facilities in which they are engaged.¹⁴ Their strategy is then based on a trade-off between their own production (but which implies production risks), contractual arrangements with local farmers (with a certain level of transaction costs), and procurement on the spot market (characterized by quantity and price fluctuation).

¹⁴ This is the case for the sugar industry for example (it is the case of Illovo), where the mills have to turn a certain number of hours a day in order to be economically viable.

Promoted as public-private partnership by national governments and international institutions, this strategy is often seen as a “win-win-win” situation for the agribusiness, local/independent farmers and the national governments/international donors. The establishment of such models is thus often supported and relies on the financial and technical participation of international donors and NGOs (For example, the former benefit from financial resources or concessionary loans). NGOs and development projects are also involved to secure land rights for the farmer associations¹⁵ or providing them with inputs.

Agribusiness Estate

This model is characterized by the full vertical integration of the different segments of an agricultural value-chain, mainly through foreign multinationals or listed enterprises on foreign stock markets. Several forms of such enterprises are identified:

- Large private agribusinesses, expanding their markets and portfolios;
- Colonial structures that are being revitalized by the host government, by recalling and redeveloping old and faded ties (mostly for the sugarcane plantations and mills in Mozambique);
- Foreign parastatals aimed at securing access to agricultural commodities (for example, for food security in the country of origin, etc.).

These very large projects (often more than 10,000 ha) often rely on irrigated crops, are highly mechanized and involve capital-intensive business models. Total integration relates to diverse elements. A first element is related to the crop characteristics. This is particularly the case for sugarcane production, for example, which necessitates direct transformation. South African sugar companies such as Illovo, Tongaat-Hulett and TSB are very well established in the region and are presently investing in Southern African countries based on this model. A second and more recent tendency is the decision of certain transformation industries to integrate primary production. Such processes have been accelerating since the food price crisis, the reduction of world food stocks and the increase of basic food commodity prices in 2008-2009 (mainly with the aim to reduce costs and secure procurement). This is the strategy for certain fruit and vegetable transforming enterprises, integrated beef and other meat productions.

The difficult trajectory of SA agricultural investments in Africa

Certain models seem to be developing more in specific countries. All models tend to develop in relatively liberal Zambia. Congo tends to rely on a centralized administration, leading to models based on bilateral negotiations such the cooperative model, the nucleus-estate and the agribusiness one. An intermediary dynamic can be identified in Mozambique, where at the national level a more centralized system leads to the larger cooperative/nucleus-estate/asset management ones; however, through its provincial administration, independent, associative and asset management models are established at provincial level.

Despite these divergences, all the models reflect three common tendencies: a high investment failure rate, a tendency to increased value-chain integration and little inclusiveness of local populations.

¹⁵ The process of land right formalization have been realized through the Iniciativa Terras Comunitarias program (ITC) and the soya producers are benefiting from seeds and technical support from Technoserve.

The rush back home? A large majority of investments are failing

A consensus exists in the research community on the fact that a high proportion of deals that are reported by the press are never implemented (Anseeuw *et al.* 2012). Indeed, the failure of a project can happen at different stages of negotiation or implementation. Many investors expressed interest or even started the process to get access to land but abandoned the project before getting the official recognition of their land rights. Nevertheless, even among the project that managed to obtain their formal land rights and started establishing their project, a high level of failure had been identified. In this case, we consider a failure of the project when the management team of the project left the area for more than a year. A detailed analysis of the agricultural projects approved between 2007 and 2012 in four Mozambican provinces (Sofala, Manica, Zambezia and Nampula) show the failure of 63% of the projects. This level of failure is even higher for the projects dedicated to biofuel production (77%).¹⁶

According to the interviews conducted with farm managers, four main reasons explaining this high level of failure can be identified. First, the high settling and transaction costs to establish a business in Africa. All the project managers interviewed emphasized the necessity of collecting soil, climate and land use data in details in order to identify the specific location area of the project. On top of these costs, one has to add all the travel expenses, the consultancies, the transaction costs related to the understanding of the business environment, the cost of land access and the bribes. For a project implying a land access of 5,000 ha, this cost is estimated to be between US\$500,000 and \$750,000. This means, that before acquiring the equipment, preparing the land and planting, the investors must be sure to have these funds available¹⁷ Most of the investors, especially the non-African ones underestimated this difficulty. As a result, South African and Zimbabwean consultants and fund managers are now particularly targeted by investors to reduce these implementation costs. The second reason is the technicality of the projects. Most of the investors underestimate the technical and managerial difficulties related to the implementation of large-scale agriculture in often difficult ecological, political, bureaucratic and socio-economic environments. The case of the South African farmers in Congo illustrates the latter. Being affected by several unconsidered technical issues, such as tropical maize pests, etc., their productivity remains far below expectations leading to difficulties to honor loans and contractual arrangements. Third, the lack of financial resources and services leads the projects into a “cash trap”. Financial services used by these projects come from more established economies, such as South Africa or other developed countries. Local financial services are very expensive and often not adapted to settling investors, especially in agriculture. For example, commercial bank’s interest rates are 23% in Mozambique for an agricultural company that wants to produce for the domestic market. Fourth, the lack of local markets well developed to buy inputs and commercialize the production. Exports markets are often difficult to reach, transport costs are high and norms and non-tariff barriers frequently impact the individual farmers that can deliver relatively low volume and irregular production (particularly in the early phase).

The high failure rate depicts a “not-so-rosy” story concerning the land deals that have been implemented. A large number of projects have failed even before effectively starting to produce. It pushes many to return to their country of origin, representing a rush back home. Others tried to change their investment model (forming associations or implementing activities through the cooperative model) or work for other investors (as subcontracting

¹⁶ Author’s calculations based on CPI and CEPAGRI data (2007-2012) and fieldwork monitoring.

¹⁷ Interviews with farm manager of jatropha projects and business consultants, May 2012.

farmers for asset management companies or nucleus estate models). This pattern of failure leads to rapidly changing strategies of the investors, leading to the typology of models presented being dynamic. Failing investors re-strategize and engage in different models as they seek new financial resources (including from international cooperation agencies). Another implication of this high level of failure is that better-off investors take over the land of failed projects leading to more concentrated agrarian structures but also to first hand negotiations and local population's inclusiveness often to be neglected. Moreover, after the failure of the project the population can stay or come back on the land but with insecure land rights because the land is already identified as a potential area for investors. As generally considered in economic development literature, this pattern of even more insecure land rights will have consequences on agricultural development of local farmers who already complain about the limited access to land to maintain their itinerant farming systems and about the lack of possibilities to buy fertilizer to change this farming system.

Vertical coordination - A necessity for success?

An increased tendency towards vertical integration is indeed a common trend observable in all the models identified. Not only is there an increasing degree of integration from the first independent farmer model towards the last agribusiness estate model; the tendency is also observable within each model. Indeed, all of them tend to integrate their activities in an overall vertically integrated entity. Moreover the many difficulties encountered by a large majority of investors reinforce the conviction among investors that vertical integration is the way forward.

This integration process encompasses not only the farm itself, but often integrates the entire chain of agriculture-related activities, including seed supply, processing, machinery, storage, transport, marketing, and in some cases outlets, shops and restaurants. The approach is not new, and several agricultural export sub-sectors (such as coffee, cotton, etc.) are already structured according to this model, particularly in Latin America (Rabobank 2011). However, over the past few years, this strategy has been applied more widely, both geographically (Southern Africa) and across agricultural sub-sectors (meat, cereal, etc.).

This process of vertical integration or coordination is driven by local and international factors. Firstly, according to Vermeulen *et al.* (2010) investors expect a reversal of the risk/profit relationship within the production value chains because of the increased interest and increased commodity prices. Whereas primary production constituted until now the main risk factor, with profits returning to downstream and upstream actors, the increase in agricultural prices now tends, at least according to investors' strategies, to invert this relationship benefiting as such the primary production activities. This leads to agribusinesses or other corporates to integrate primary agricultural production in their portfolios, developing strategies to secure fixed supply and reduce the risk of commodity price volatility. Secondly, avoiding the above-mentioned obstacles is another main reason for investors to vertically integrate. Vertical integration is a frequently applied strategy in order to overcome market imperfections. The more the coordination goes toward integrated forms, the more the risk decreases, resource access is secured and bargaining power is strengthened (Reardon *et al.* 2009).

Few inclusive agricultural development models

These failures and the necessary vertical integration lead to few inclusive agricultural development models. This leads to three direct consequences. The first one is related to the

challenges for local farmers to participate and benefit from the present land and agricultural investments as the latter tend to be more and more integrated. This integration, and by consequence the increasingly closed nature of the developing value-chains, implies large-scale land acquisitions to represent exclusive rather than inclusive development models. Related to this, the second one concerns the ‘isolation’ of many of the foreign investments. Indeed, as very few inclusive models are being developed, and a lack of relationships being created with local farmers and stakeholders, many of the foreign investments remain isolated and are developed as “enclave economies” poorly integrated to their surrounding society and economies (Ferguson 2005). The third one concerns overall agricultural development, in particular for local economies and populations. Based on the present observations, success of these investments does not necessarily mean the development of local agricultural economies. Although some models and specific projects do endeavor to integrate local development objectives in their model, several avoid it, particularly since the core establishment of the projects tends to be difficult. When some projects include certain social aspects, the capacity of such measures to structurally change local economies remains limited.

Where local populations are excluded from development initiatives, an escalation of competition into conflict is a significant risk. In many cases, popular discontent has so far taken the form of peaceful advocacy and protest movements (Matavel *et al.* 2012). Where injustice is seen as unresolved, the risk that such disputes and movements lead to direct and violent confrontations is real (Madagascar being the major example in Southern Africa) (Andrianirina-Ratsialonana *et al.* 2011).

Conclusion: Towards a major agrarian transformation in Africa?

The above structural elements result into a renewed configuration of the agricultural production model in South Africa, echoing agricultural transformations in other countries, such as Argentina with the development of the “pool de siembra” (Guibert & Sili, 2009).

Confronted to the inertness of the South African agricultural sector and of its transformation, these innovations seem to challenge, although still at the margins, the monopoly of South Africa’s “traditional” and inherited agrarian and corporate capitals. Indeed, while the deregulation and liberalization processes blocked the possibilities for an alternative path of accumulation within the sector, it has created opportunities for the expansion of financial capital into South African agriculture and agribusiness. This financial capital –and thus the transformations it implies - is originating from outside the sector, if not from outside the country. It also led to renewed associations, particularly with international finance, who perceive these transformations not only as an ideal set-up and models for investment in South Africa, but also as a stepping stone to the rest of the continent. As such South Africa, is not only affected by, it also acts as an actor and an intermediary for agricultural expansion into Africa.

Through the export of its farmers, agricultural expertise and agribusinesses, South Africa is certainly contributing to the development of a sector that remains largely underdeveloped in many of the African countries. This is certainly the discourse the South African government is emphasizing in order to legitimize its support to these initiatives. These South African investments not only initiate and contribute to production in the African countries, they also impulse needed institutional and organizational changes in agricultural value chains. This being said, their investments are based on large-scale farming models and oligopolistic value-

chains (a strong legacy of South Africa's development model) exporting de facto the South African apartheid-based dual and corporate agrarian paradigm.

The global land rush has profound economic and social implications for agrarian societies. Some are direct, such as the loss of land as well as the loss of livelihood; other are indirect and concern, among others, women's land rights (Daley 2011, HLPE 2011), water access (Woodhouse 2012, Adamczewski *et al.* 2013), environmental degradation through intensification (Horne 2011), and loss of biodiversity (Deininger *et al.* 2011). In addition to these already well-described, case-study illustrated consequences, the analysis detailed in this paper reflects profound economic and social transformations in agricultural structures and contextualizes the large-scale land phenomenon according to broader agrarian dynamics. Besides Borras *et al.* (2012), detailing emerging dynamics of changes in land use and property relations, the above presented typology of large-scale land acquisition models and their dynamics provide a strong basis to illustrate the dynamics that can trigger agrarian transformations in Southern Africa.

A first significant element of Southern Africa's agricultural structural transformation is the far-reaching **vertical integration** process, related to integration of the different value-chain segments. As illustrated through the different models presented in this paper, large-scale land acquisitions go along with the increasing control over the various segments of a value-chain. Either implemented voluntarily or as a necessitating strategy used by investors, it results in the establishment and development of structures and enterprises that are significant in size. On one hand, it leads to the "**corporatization**" of agriculture. This dynamic is not related to mechanization *per se* but rather to a transformation of the production structures (Anseeuw *et al.* 2011). As such, the agricultural value-chains are increasingly controlled by a few dominant actors, mainly corporates. On the other hand, in the presence of advanced vertical integration through which companies not only control the primary production but also the upstream and downstream activities, closed value-chains tend to be developed. Not only does it result in companies controlling the productive cycle and its markets (for example, export of total production (McMichael 2012)), it also results in these companies intervening as a regulator within these value-chains, directly controlling supply quotas, price setting, production norms, etc. (Bernstein 1996).

A second element is related to the "**financialization**" of the agricultural sector. As emphasized by the different models presented in this paper, investment in land and in agricultural production is not just engaging agribusinesses and farmers solely; financial investors, asset management funds and companies are now important stakeholders in the agricultural sector. As such, originating from industrial or financial sectors, engaging as entrepreneurs, investors or even as pure speculators, the suppliers of capital seem more and more exogenous to the agricultural sector. These new actors import into the agricultural sector new practices, business logics, modes of actions and outside experiences. Their interactions and inputs alter the sector's "traditional" modes of action, investment and production. Through the increasing role and direct engagement into the sector of investors and financial actors, and their use of advanced financial instruments (such as future markets), "financialization" of the agricultural sector is taking place, which is redefining the traditional borders of the agricultural sector (Anseeuw *et al.* 2011).

A third point deals with **foreignization** of space (Zoomers 2010). In South Africa the dominant investors, which include commercial banks, investment funds and certain former cooperatives, are domestically based. However, the different entities (agribusinesses,

investment funds, etc.) investing in other Southern African countries are often foreign based, even if domestic elites are involved as partners in the projects (Fairbairn 2013). But in both cases, the financial structures of these bodies are increasingly globalised (McMichael 2012). The fact that investors are foreign is not a problem in itself. It can however become an issue as these actors are acting within closed value-chains, according to principles (such as the financial ones) borrowed from other sectors. As foreign economic powers control more and more land and segments of value-chains, they transfer regulatory powers on domestic issues such as local rural development and agricultural development abroad, raising questions as to the decisions over standards, norms and regulation mechanisms applied within these value chains and countries. It leads to a foreignization not only of the sector, but also of its regulatory mechanisms (Bülher *et al.* 2012).

The fourth element of agrarian transformation is linked to a **concentration** and **dualization** process of the agricultural sector. On one hand, the establishment of large-scale projects inevitably leads to concentration in the Southern African agricultural sector. Indeed, the dual processes of vertical integration and financialization/corporatization leads to an agricultural sector characterised by the dominion of a few large international food-business groups (Huggins 2011). This pattern of concentration is reinforced by the high level of failure of the projects because the better-off investors buy-out the projects that are failing. On the other hand, as shown through the non-inclusiveness of the investment models, the large majority of the rural masses and smallholder farmers are excluded from the investment processes (intentionally in order to avoid risks and transaction costs or due to the negative results achieved and the refocus on core activities). Here too, marginalisation is intensified through often biased competition and unequal power relations. This results in agrarian economies that are developing at dual speeds and in different directions, with concentration, marginalization and dualization processes at stake. With mega-structures being established, that are swallowing medium-sized entities (mainly taking over the land from the many failures), and with smallholders being excluded, the present large-scale land acquisition process is leading to a sector characterised by extreme dualization.

Finally, the fifth element is related to **social transformations**. While the emergence of these production models has the potential to generate numerous economic related transformations, social impacts should also be highlighted. Not only are many excluded from these processes, leading to the transformation of dispossessed peasants to “surplus people” (Li 2011). Those able to access these value chains find themselves incorporated into production chains in which they are isolated actors with no decision-making or orientation power. The incorporation process of family-based producers by macro-actors and corporates thus modifies their relationships with the sector. As such, this situation not only changes the social relations of property and land, as emphasized by Borras *et al.* (2012), but also changes the social status of the farmers. Although in some cases they remain the owners of the land, their situation is increasingly similar to that of proletarian agricultural employees or even just rent-seekers. Generally, the technical capital used, characterized by ever-increasing costs, does not belong to them but is made available, owned and managed by the management company (Anseeuw *et al.* 2012).

Is Southern Africa effectively undergoing large-scale and profound agrarian transformations? The question is all the more relevant as, on one hand, large-scale land projects remain relatively small in number (all models included, Zambia counts 13 reported deals; Mozambique 124 and Republic of Congo 7 (Land Matrix 2011)) and, on the other hand, most of these deals, as detailed in this paper, are failing. This being said, several elements allow us

to emphasize the significance of the trends detailed here above and the large-scale implications of the process on the sector. Firstly, since it concerns large-scale initiatives, it does concern a significant proportion of the arable land of these countries. As such, in Mozambique for example, large-scale land right attribution for agriculture to foreign investors between 2007 and 2011 accounted for at least 955 000 ha,¹⁸ representing 15% of the available land suitable for agriculture.¹⁹ Secondly, as described in the paper, the establishments finally developing are structures that are strongly integrated, controlling important parts of the agrarian economy or of specific commodities through closed value-chains. As is the case in Brazil and Argentina (Rabobank 2011), and to a lesser extent in South Africa (Anseeuw *et al.* 2013), the few corporate structures tend to concentrate power and develop an oligopolistic sector. Although small in number, the trend of land rights attributed to them and thus the implication for the sector are significant. Lastly, these restructurings could be long term and strongly embedded, as the large-scale farm development paradigm is presently openly promoted. Not only do smallholders benefit little from present agricultural investment dynamics, but also agricultural policies and support measures tend to shift away from the former towards the facilitation of large-scale investment. In most cases, smallholders tend to be more than ever excluded from present dynamics and policies. As such, a new agricultural development paradigm has been emerging (De Janvry 2010), or rather a new one has become dominant in official discourses, manifesting itself both at the national and international levels. Agricultural development centered on large-scale commercial and corporate farming has become the reigning paradigm. Conveyed by investors, it is presently being promoted by the different governments in the region, as well as being spread across the continent through public development agencies.

So, although Southern Africa's agrarian transformations are not broad-based, the control by a few has wide-ranging implications for the agricultural sector. These implications are directly related to the transformation of the countries' agrarian societies through corporatization, financialization, concentration, dualization, and foreignization. They also cause a shift towards a dominant corporate-based paradigm and lead to questions regarding the future of small-scale commercial farming within agricultural development.

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¹⁸ This total number does not include the forestry concessions as well as the project for wildlife breeding.

¹⁹ Author calculation from CPI and CEPAGRI data monitored on the ground and estimation of arable land available and suitable for agriculture realized during the Agroecological zoning.

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